

ACQUIRER (FRP, 5/97)

Acquirer plc prepares financial statements to 31 March each year. The consolidated profit and loss account for the year ended 31 March 20X7, and the consolidated balance sheets at the beginning and end of that period, are given below.

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 20X7

	Notes	£m
Turnover		4,300
Cost of sales	1	(2,000)
Gross profit		2,300
Other operating expenses	1	(1,000)
Operating profit		1,300
Interest payable and similar charges	2	(250)
Profit before taxation		1,050
Taxation	3	(350)
Profit after taxation		700
Minority shareholders' interests		(100)
Group profit		600
Proposed dividend	4	(300)
Retained profit for the year		300
Retained profit: 1 April 20X6		1,900
Retained profit: 31 March 20X7		<u>1,900</u>

CONSOLIDATED BALANCE SHEET AT 31 MARCH

	Notes	20X7 £m	20X6 £m
Tangible fixed assets	6	4,100	3,700
Net current assets	7	1,570	1,450
Creditors falling due after more than one year	8	(1,300)	(1,200)
Deferred taxation		(320)	(230)
		<u>4,050</u>	<u>3,720</u>
Called-up share capital		1,200	1,200
Profit and loss account		2,100	1,900
		<u>3,300</u>	<u>3,100</u>
Minority shareholders' interests		750	620
		<u>4,050</u>	<u>3,720</u>

Notes

- Depreciation charged in the consolidated profit and loss account for the period totalled £970 million. There were no disposals of fixed assets in the period.
- There was no accrual of interest at the beginning or at the end of the year.
- Taxation*

	£m
UK corporation tax on the profits for the period	300
Deferred UK corporation tax	50
	<u>350</u>
- It is the policy of Acquirer plc not to pay interim dividends.

- 5 On 1 October 20X6 Acquirer plc acquired 75% of the ordinary share capital of Target Ltd for a cash payment of £550 million. This acquisition made Target Ltd a subsidiary of Acquirer plc. The balance sheet of Target Ltd at 1 October 20X6 showed the following balances.

	£m
Tangible fixed assets	500
Stocks	400
Debtors	300
Trade creditors	(200)
Taxation (including deferred taxation)	(80)
Bank overdraft	(320)
	<u>600</u>

- 6 Acquirer plc finances a number (but *not* all) of its fixed asset purchases using finance leases. In the period, fixed assets which would have cost £600 million to purchase outright were acquired under finance leases.

- 7 Net current assets at the beginning and end of the year were as follows.

	31/3/X7	31/3/X6
	£m	£m
Stocks	1,500	1,600
Debtors	2,200	1,800
Trade creditors	(950)	(850)
Taxation	(225)	(205)
Proposed dividend	(300)	(240)
Obligations under finance leases	(500)	(450)
Bank overdraft	(155)	(205)
	<u>1,570</u>	<u>1,450</u>

- 8 The creditors falling due after more than one year were all obligations under finance leases.

Required

Prepare the consolidated cash flow statement for the Acquirer group for the year ended 31 March 20X7 using the standard format laid down in FRS 1.

22 Marks

ACQUIRER

CASHFLOW STATEMENT FOR Y/E 31-3-X7

£m £m

CASHFLOWS FROM OPERATING ACTIVITIES

Operating profit	1300
Depreciation	970
Decrease in stock, $(1500 - 1600 - 400)$	400
Increase in debtors $(2200 - 1800 - 300)$	(100)
Decrease in trade creditors $(950 - 850 - 200)$	(100)
Cashflow from operations	<u>2570</u>
Interest paid	(250)
Tax paid (W1)	(320)

NET CASHFLOW FROM OPERATING ACTIVITIES

2000

CASHFLOWS FROM INVESTING ACTIVITIES:

Purchase of tangible fixed assets (W2)	(270)
Cash paid on acquisition of subsidiary $(550 + 320)$	<u>(870)</u>

NET CASHFLOW FROM INVESTING ACTIVITIES

(1140)

CASHFLOWS FROM FINANCING ACTIVITIES:

Ordinary dividends paid (W3)	(240)
Dividend paid to minority interest (W4)	(120)
Capital element of finance lease payments (W5)	<u>(450)</u>

NET CASHFLOW FROM FINANCING ACTIVITIES

(810)

INCREASE IN CASH + CASH EQUIVALENTS

50

CASH + CASH EQUIVALENTS AT 1-4-X6

(205)

CASH + CASH EQUIVALENTS AT 31-3-X7

(155)

(W1) TAX

		£m
BAL B/F: CORPORATION TAX	205	
DEFERRED TAX	<u>230</u>	
ACQUIRED WITH TARGET		435
		80
CHARGED FOR THE YEAR		350
CASH PAID (BAL FIG)		(320) *
BAL C/F: CORPORATION TAX	225	
DEFERRED TAX	<u>320</u>	
		<u>545</u>

(W2) TANGIBLE FIXED ASSETS

	£m
BAL B/F	3700
ACQUIRED WITH TARGET	500
DEPRECIATION CHARGE	(970)
ACQUIRED UNDER FINANCE LEASES	600
CASH PURCHASES (BAL FIG)	270 *
BAL C/F	<u>4100</u>

W3) ORDINARY DIVIDEND

	£m
BAL B/F	240
CHARGES FOR YEAR	300
CASH PAID (BAL FIG)	(240) *
BAL C/F	<u>300</u>

W4) MINORITY INTEREST

	£m
BAL B/F	620
ACQUIRED WITH TARGET ($25\% \times 600$)	150
SHARE OF PROFIT FOR YEAR	100
DIVIDEND PAID (BAL FIG)	(120) *
BAL C/F	<u>750</u>

W5) FINANCE LEASES

	£m
BAL B/F ($1200 + 450$)	1650
ADDITIONS	600
REPAID (BAL FIG)	(450) *
BAL C/F ($1300 + 500$)	<u>1800</u>